Executive Perspectives
Insights on Housing Finance

Short Sales: Dispelling the Myths

By SVP Tracy Mooney on January 13, 2014

In this installment of "Dispelling the Myths," we're focusing on short sales – when a property is sold for less than the balance remaining on the mortgage loan. The short sale is an important tool for helping distressed homeowners avoid foreclosure and eliminate their mortgage debt. And thanks to key changes we've made in the program, Freddie Mac short sales today are taking less time to process on average than ever before. But for a lot of borrowers, short sales remain a mystery. Here are eight common misconceptions about short sales – and the facts every distressed homeowner should know.

Myth: I will be responsible for the entire amount owed on the mortgage.

> **Fact:** Not necessarily. Under the Freddie Mac Standard Short Sale program, borrowers who complete a short sale in good faith and are in compliance with all laws and Freddie Mac policies will not be pursued by Freddie Mac for the entire amount owed under the mortgage. If you have the financial ability, you may be asked to make a one-time payment or sign a new promissory note for a portion of the unpaid balance after the short sale closes. Learn more.

Myth: I can't get a short sale on an investment property or second home.

> **Fact:** Investment properties and second homes are eligible for a Freddie Mac short sale if borrowers meet the eligibility requirements.

Myth: A short sale is not an option for me because I'm current on my mortgage payments.

> **Fact:** Even if you are current on your mortgage payments, you may be eligible for a short sale. In addition to meeting the general eligibility requirements, the property must also be your primary residence and your debt to income ratio must be greater than 55 percent.

Myth: I won't qualify because my servicer has strict guidelines on short sales.

> **Fact:** Every borrower is eligible to be considered for a Freddie Mac short sale providing they meet the eligibility requirements. Freddie Mac increased the authority of its servicers to approve short sales for qualifying financial hardships for homeowners who are past due *or* current on their mortgage payments. In addition, servicers now have the independent authority to approve short sales without a separate and potentially time-consuming review by the mortgage insurance company.

Myth: A short sale will affect my eligibility for a new mortgage.

> **Fact:** If your financial difficulties were the result of income loss, medical emergencies or other extenuating circumstances beyond your control, you may be eligible for a new Freddie Mac mortgage once you've established acceptable credit for at least 24 months after completing the short sale. However borrowers who require a short sale as the result of personal financial mismanagement must re-establish acceptable credit for at least 48 months to become eligible for a mortgage backed by Freddie Mac. You should start speaking to a lender about a new mortgage two years after your short sale closed.

Myth: Short sales can take several months to complete.

> **Fact:** With Freddie Mac's Standard Short Sale, the time lines are significantly shorter. Servicers have 30 days to make and communicate a decision to you once they receive your completed application. Once approved, you

can expect to close on your short sale within 60 days – working with an experienced real estate agent can help expedite the process.

Myth: I have a second mortgage on my home, so a short sale is not an option.

Fact: If you meet the other eligibility requirements, you may be able to obtain a Freddie Mac short sale even though you have a second mortgage. For example, under our short sale program, we are offering up to $6,000 to subordinate lien holders – who are like second mortgage companies – in exchange for releasing the subordinate lien, extinguishing the underlying indebtedness and waiving the right to pursue deficiency.

Myth: A short sale will ruin my credit score.

Fact: While only the credit reporting agencies that calculate your credit score will know for sure, it's possible that a short sale might be better for your score than a foreclosure. Even if it isn't, a short sale gives you time to find a more affordable place to live and exit gracefully from your obligation.

Should You Consider A Short Sale?

If all retention options have been exhausted or are not possible, a short sale is a good alternative to foreclosure that allows distressed homeowners to gracefully leave their home and transition to more affordable housing. It's also typically less damaging to a borrower's credit report than foreclosure, and usually reduces the amount of time a borrower needs to wait to get a new mortgage down the road.

A short sale may make sense if you:

- Do not qualify for any options to keep your home, including a loan modification, forbearance, or reinstatement.
- Need to move in order to keep or obtain employment.
- Don't think you could sell your home at a price that would cover your outstanding mortgage amount.

Steps To Get Started With A Freddie Mac Short Sale

- Find out if Freddie Mac owns your mortgage by visiting our Loan Look-up Tool.
- If Freddie Mac owns your loan, reach out to your mortgage servicer. Their telephone numbers and mailing address should be listed on your monthly statement or coupon book.

Visit our short sale resource center to learn more.
